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TORONTO, 15th May, 1869.

*To the Shareholders of the Royal Canadian Bank:—*

GENTLEMEN,

On the 13th April, I ventured to address you, privately and confidentially, respecting the management and affairs of the Royal Canadian Bank. I wrote as a Shareholder to Shareholders, with no intention of enlisting the public in the controversy. The other Directors, in their associate capacity, and the late President individually, have issued circulars in reply, marked like mine, "private and confidential," but unlike mine, so used as to invest the matter with a public character. For the appearance of the correspondence they, not I, must be held responsible; and if in its progress, it assume a more disagreeable complexion than the sincere friends of the Bank desire, the circumstance will be attributable to them and them alone. My desire was to eschew personalities. In their anger at my criticism they have indulged freely in inuendo and abuse. You are the judges between us, and by your verdict upon this point I am content to abide.

Let me say, before proceeding further, that the unworthy weapons employed by my assailants will not deter me from the performance of what has become a duty. I am willing that every statement presented in my last shall be subjected to searching scrutiny, and if I have misrepresented the condition of the Bank or maligned its management, I shall not hope to escape your censure. But I demand evidence, and will not accept calumny in its place. I have set forth what I know to be facts, and I call for facts in reply. You, I am confident, understand too well the matters in issue to allow your attention to be turned aside by vituperation directed against myself. In the contest which has begun, the interests at stake are those of the Bank; and concerning these, the gentlemen who control its management have little or nothing to say.

You cannot have failed to observe that with regard to the tranactions of the Bank with Mr. W. R. Brown, and afterwards with Messrs. Brown & Chewett, the circular of the Directors is silent. They do not attempt denial or explanation of the serious accusations I have preferred. Even the late President, who, without consultation with the Board, first entered into the arrangement with Mr. Brown, even he does not challenge a single essential fact. It is of no avail for him to declare that I "was advised and knew of Brown's transactions and arrangements with the Bank." I repeat, I had no knowledge of Mr. Smith's arrangement with Mr. Brown, nor that the latter had a credit, until after the disclosures consequent on the arrest of Mr. Chewett. Mr. Smith does not assert that either his arrangement with Mr. Brown, or Mr. Metcalfe's arrangement with Brown and Chewett ever came before the Board. In each case the President acted on his own responsibility, not only without submitting his action for ratification by the Directors, but without reporting the existence of the arrangement. So far as I know, the first intimation the Board, as such, had of transactions which resulted so disastrously was subsequent to Brown and Chewett's failure. What "Oath" Mr. Smith may be able to procure on the subject, I neither know nor care. Of the proceedings of the Board the minutes are evidence, and by the minutes let me be judged.

Touching the Cobourg, Seaforth and Kingston agencies, my opponents are more positive, but their positiveness is confined to comparatively immaterial points. Referring to Cobourg, the Directors remark: "It is not correct that the appointment of Mr. Wallace was made against the remonstrance of Mr. McDonald," in proof of which they cite the fact that I was not present at the time when the appointment was made, nor at several succeeding meetings. But this is an evasion. The subject of the appointment was discussed at the Board before the date of the appointment itself, and on those occasions I protested against it; in one instance citing a remark of the Honorable Mr. Perry, that if Wallace were appointed the Bank would "make a smashing businesss." At that meeting the Cashier replied that if Wallace followed his instructions no loss could arise; and if he did not follow them he would be dismissed. Wallace did not follow his instructions and was not, as he should have been, at once dismissed. Hr. Smith says that the "temporary continuance" of Wallace, which he suggested, was for the purpose of securing some large amounts which would have been jeopardized by his sudden dismissal, and which suggestion the Board concurred in." I was not present when this concurrence was given, and I regard the reason assigned for it as a pretext for extending further help to parties indebted to the Bank. At any rate, the "temporary continuance" was not justified by the result. The books shew that instead of "securing some large amounts" the action of Mr. Smith was followed by an almost total loss. Increased advances led to increased embarrassment.

The Directors' statement in relation to the Seaforth Agency is that "it is not correct either that Mr. McDonald proposed the dismissal of Mr. Russell, the agent, or that the Board qualified the motion, with a proviso giving Mr. Russell time to adjust his accounts." They add, "there was no such motion." The motion in question was introduced by myself several weeks before the dismissal took place. I proposed simply that Mr. Russell be dismissed. Mr. Smith objected, on the ground that there was nothing against Russell. I pointed out the unsatisfactory nature of his accounts, and was met by Mr. Smith with the remark that I wished to "hang a man first and try him afterward." An addition was suggested, that the dismissal take effect so soon as his accounts were adjusted, and in this shape the motion passed unanimously. Mr. Smith now insists that my representation of the case, in its bearing upon himself, is "pure fabrication, having no foundation whatever in fact, the result of a personal enmity," and so forth. Of the value of this declaration you will be better able to judge, when I shew the peculiar relation existing between Mr. Smith, the President, and Mr. Russell, the defaulting agent, as I shall do before closing this letter.

Of the Kingston agency, the Directors observe, "the Cashier was the first to direct attention to the irregularities there." If he was satisfied that irregularities existed, it was his duty to send the Inspector at once, which he neglected to do, although that officer was and is subject to his direction. Undoubtedly the affairs of the agency came before the Committee on Agencies in the regular course of investigation, and what I did in the

matter was done as a member of that committee. But how does this circumstance affect my original statement? I claimed no special credit in the premises. I only called your attention to the fact that the affairs of the agency had been grossly mismanaged, and that culpable delays occurred in the application of remedies. Mr. Smith says I do not "dare" to connect his name directly with the irregularities complained of. I "dare" to say that the agent was a confidential correspondent of Mr. Smith, and acted for him in procuring proxies in support of his policy; and, moreover, that the relation thus existing was the occasion of reluctance on the part of Mr. Metcalfe in dealing with the agency.

You are told "it is not correct that Mr. McDonald was compelled to abandon the investigation undertaken by the Committee on Agencies." I reiterate my assertion that I abandoned the task because obstacles were thrown in the way of such an investigation as the case required, and because I found a majority of the Board supporting the measures of the late President. The Directors declare "There was no such division." Well, let me give an instance. After the Board became acquainted with the Brown & Chewett arrangement, I moved a vote of censure upon the late President for having granted the original credit, and that motion was not even seconded. Again, when the affairs of the Cobourg Agency were under discussion, Messrs. Metcalfe & Manning, as well as myself, expressed disappointment that the expectations held out by Mr. Smith in recommending a certain course had not been realized. This was in the Committee on Agencies. When the subject came before the Board, the reference was objected to, and was expunged against my vote. Are not these evidences of division?

Much is said concerning my motives, which are assailed both by the Directors and Mr. Smith. Both allege that my difference with the Board dates from the rejection of a proposal for my own advantage which I am alleged to have made. The Directors' version, that "Mr. McDonald, a short time since, made a proposal to the Board which, in the interest of the Stockholders, the members present unanimously felt bound to decline." From that time, they go on to say, "the undersigned observed a marked change in his conduct towards all the members of the Board." Mr. Smith's story is, that on the 29th January last, I applied for a loan of $100,000, which I wanted "for the purpose of investing in one of the most dangerous enterprises in the United States," and the refusal of which is the cause of my present action. What are the facts? Sometime previous to the date mentioned, a gentleman of high character and standing in this community invited me to take an interest in a large enterprise, which seemed to him to promise great pecuniary results. The operation required considerable banking accommodation, and I promised him that I would speak to the Officers of the Bank, and ascertain if the advance could be conveniently made. The officers told me there was a large amount of idle funds, and that the proposition should be submitted to the Board. Of the nature of the enterprise, I am not at liberty to speak. I may say, however, that it is in all respects legitimate, that I did not commit myself to it either in my intercourse with the gentleman or my communication to the Board, and that I assured both that if the Bank entertained the proposition, before availing myself of it, I should personally investigate the merits of the project, and form my own judgment as to its probable advantages. I further informed the Board that in the event of the accommodation being required, I should bind myself to furnish adequate security for every dollar loaned. In a proposal so made, and accompanied with such conditions, I see nothing irregular, nothing incompatible with the interests of the Stockholders, and nothing of which I have any reason to be ashamed. True, the Board declined the proposal. But the President subsequently offered, on his own authority, to let me have the $100,000 if I would spread the amount over three weeks! The whole matter, however, had been dismissed from my mind, and I declined his offer.

The supposition that this affair was the beginning of my difference with the Board, is an effort of the Directors' imagination. At no time during my conection with the Bank has there been agreeable relations between myself and some members of the Board. With Mr. Smith, especially, I have steadily refused to act. With Messrs Metcalfe and Manning there was no interruption of amicable intercourse, until the issue of my circular. Indeed these gentlemen associated themselves with me, in March, in a plan for the purchase of the Toronto Street Railway. But, declare the Directors, I "next endeavoured, under threat of issuing a circular to gain a personal advantage, coupled with a promise" that if my offer were accepted, my "lips would be sealed." I cannot recall any incident which can be tortured into a basis for this calumny. This I remember:—The discussions at the Board, consequent upon the Brown-Chewett revelation, induced me more than once to remark that I should find myself compelled to appeal to the Shareholders as against the management of the Bank. This is the only "threat" with which I am truly chargeable. Out of the Board, the President and the Cashier maintained that the position of the Bank was better than I described it; that not only was the stock intact, but that means were on hand to pay a dividend out of profits. I renewed the conversation on the 17th or 18th of April; observing to the Cashier that if he could satisfy me of the accuracy of his representations, I should confess myself mistaken, and withdraw from the Board and the Bank, of course taking my interest with me. The worth of the stock was spoken of, and I said that if the Cashier's view were tenable, the stock should sell at par, *plus* a proportion of the contemplated dividend, and that at this rate, I for one, was quite prepared to sell. At the time I insisted that the real state of affairs was unfavorable—that not only was the Bank not in a condition to declare a dividend, but that its reserve, or most of it, had been swept away, and disaster could be averted only by the interference of the Shareholders, and the introduction of other management. The Cashier requested me at least to delay the circulation of my circular, which, as the date shews, was then in type, in order that the Bank might realize its advances on produce. In support of this request, he stated that the Bank had already suffered seriously from the want of public confidence; the run produced by the Brown-Chewett disclosures and the Taylor failure having drained the Bank of nearly a million dollars in gold. I complied with the request so far as to delay the issue until the 27th of April; though of the necessity of the sweeping change, I desired to bring about the Cashier's confession was conclusive proof. Beyond these conversations, these statements and counter statements, these declarations *pro* and

*con*, nothing occurred or was hinted at, looking to any compromise or arrangement as between myself and the Board.

Mr. Smith has another explanation of my position. He seeks beyond the date fixed by the Directors for the commencement of my opposition and traces it to July last. "The first cause of his (my) real discontent was the fact that he (I) was not elected President in July last when my (Mr. Smith's) term of office expired." How little reason I had to be dissatisfied with the action of the Shareholders on the occasion referred to, the result of the voting will best explain. Thus the list stood:

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|---|---|---|
| Donald McDonald | 4,052 | votes. |
| William Barber | 3,916 | " |
| James Metcalfe | 3,752 | " |
| R. A. Harrison | 3,262 | " |
| Alex. Manning | 2,926 | " |
| A. M. Smith | 2,924 | " |
| J. Crombie | 2,860 | " |

So decided an expression of confidence on the part of the Shareholders left me nothing to desire. With the subsequent election of Mr. Metcalfe to the Presidency by the Board I avowed myself dissatisfied, because that gentleman was then heavily indebted to the Bank; and I contended that the chief executive of such an institution should not be one of its debtors. Mr. Metcalfe deprecated criticism or opposition on the ground that, having been chosen President, he could not retire before the expiration of the year without prejudice to his interests.

One other point raised afresh by the Directors and Mr. Smith requires attention. The Directors inform you that it is not correct that returns to the Government have been so manipulated as to conceal losses. "These returns," they assert, "have been prepared by the proper officers of the Bank, and are correct." Mr. Smith, also, has "no doubt" that the monthly returns were correctly prepared. Now, returns to the Government, to be trustworthy, should exhibit precisely the position of the Bank's affairs. The statement of assets, for example, should include only those which have a *bona-fide* existence. But the returns of the Royal Canadian Bank have exhibited assets without deducting losses actually experienced. Thus, the indebtedness of men known to be insolvent has been used to swell the volume of reported assets. The President and the Cashier in the conversation of the 17th April, admitted losses to the extent of $200,000, which amount had not been deducted from the aggregate of assets returned to the Government. My estimate of the losses far exceeds these figures. I know that the losses at one agency, which the President and Cashier put down at $20,000, really run up to twice that sum; and though other of their representations may not be so far from the truth, I am convinced that they fall considerably short of the reality.

But, says Mr. Smith, "any unbiassed reader will plainly see Mr. McDonald had the remedy in his own hand—in no instance was information withheld from the Board." Undoubtedly certain books are placed on the table when the Directors meet, but their time during the brief sitting is occupied with matters which render personal inspection of the books practically impossible. Nor, were the case otherwise, is it the business of the Directors to institute a scrutiny into the records at every meeting. It is the duty of the President to report to them the true state of affairs; to inform them of new arrangements, and to take their opinion as to matters that are pending or in contemplation. My complaint is that neither the late nor the present President performed this duty—that neither accustomed himself to consult the Board with reference to credits granted or applied for, or even to report losses, until they had become desperate. In short, both of these gentlemen have uniformly acted on the idea that the President may do as he pleases, and that the Directors are entitled only to such information as he may choose to give them.

I have now noticed in detail the various allegations with which the Directors and the late President have attempted to break the force of my criticism on their management. You will agree with me, I think, in the opinion that their denials and so-called explanations amount to little. Not one of my statements have they disproved. They have touched them only to reveal their inability to justify the proceedings exposed. Their allusions to my private affairs are as untrue in their scope and aim as they are mean and malignant in spirit; and I have no apprehension that they will divert your attention from the grave averments contained in my former circular, not one of which have these gentlemen ventured to assail.

Let me remind you of the matters which my assailants have passed in most suggestive silence. I have charged that the Bank has accorded large and unprotected credits to individuals limited in resources and engaged in irregular and hazardous transactions; that of these credits the Board were ignorant, having no opportunity of judging of them at the time and no means of averting their consequences; that the Board have been kept uninformed of all important business; that the President for the time being, has asserted absolute authority, claiming to be sole judge of credits to be given and sole manager of the business; and that the result of this method of managing has been attended with disastrous results. I have charged, also, that the evils of this management have been conspicuous in the affairs of the agencies; that speculative and otherwise improper transactions have been allowed to go on unchecked; that agents have been allowed, on their own responsibility, to make advances to persons of doubtful credit, and to engage in operations which efficient supervision would have rendered impossible; that, as a consequence, serious losses have been experienced by the Bank. Finally, I have alleged that this bad management is worse than a mere error of judgment—worse than bad faith to the Directors, who are supposed to share its responsibilities; that it is a wrong to the shareholders, and calls for their early and effective interference. To these allegations, specific and emphatic as they are, the six gentlemen who have tried to abuse and slander me into silence, offer not one syllable in reply. They pay your discernment the poor compliment of supposing that

you will fail to discriminate between private attacks upon myself and a refutation of my charges, or an explanation that would mitigate their effect.

And who are my assailants that they should arraign me under the pretence of guarding the interests of the Shareholders? What are their relations to the Bank that they should talk to you of my private affairs? I will answer both questions by the statement of a single fact. Of all the members of the Board, the President included, I alone do not owe the Bank a dollar. I was the only one of the number not indebted to the Bank at the date of the election last July. I am the only one not indebted to it now.

Again, what, until recently, were the relations of my assailants, each to the others? I shall best explain by laying before you passages from certain correspondence between the late President and the then Agent at Seaforth—the defaulting, and now absconding Russell—which correspondence was obtained after his arrival at Chicago. I shall quote enough to shew you how zealously Mr. Smith labored to prevent the election of the majority of the present Board, and how highly he valued them as associates. Under date June 24th, 1868, we have the following:—

"My Dear Russell,

What are you doing in re proxies for the annual meeting? I have not received any from you. I will require all you can send me, as I have decided on some changes at the Board, and on that account will have to encounter some opposition myself. I rely on you getting me all you can. Send them in blank, or filled in my own name, as you may think best. Yours truly,

(Signed) A. M. SMITH.

Five days later, June 29th, Mr. Smith wrote thus to the same person:—

My Dear Sir,

I have yours of ——— in re proxies, &c., for which I am much obliged. Go on and get all that you can, as I fancy I will require them. I have heard from Mr. Whitehead. Could you not see him, and quietly rub him up on matters that you must know; also Mr. Ross. Mr. McDonald has been up there, and I understand has been telling the natives he is to be next President, &c. This I would be glad to second under any other circumstances, but the interest of those Stockholders who have taken stock on my account, and the fact that I hold more paid up stock than all the Board together—that is some reason why I should not trust the affairs of the Bank to the sweet mercies of Woodside and Manning. No one can or could regret more than I do this unfortunate affair, but I would not be deserving the name of a man if I did not at least try to counteract this attempt to place the affairs of the Bank in the power of the two men above mentioned, and who, in my opinion, is utterly unfit; at any rate so say many here. Let me have a note from you through the week. Address me private, not as President. Yours, &c.,

(Signed) A. M. SMITH.

Of these efforts to mould the Board according to Mr. Smith's will, his colleagues were not unaware. They, too, exerted themselves to procure proxies, with a result adverse to Mr. Smith's plans, as the voting already referred to sufficiently proves. After the election, under date July 10th, Mr. Smith, addressing "My Dear Russell," wrote:

"I have to thank you for the proxies kindly sent to me, which I made the best use we could of. We did not succeed in putting in all the men we wanted, or rather, in putting out those I did not want." &c., &c.

Among those whom Mr. Smith desired to elect, but did not succeed in electing, was Mr. W. C. Chewett, of Brown's Bank, for whom 2,592 votes were cast.

It was in the midst of this contest for Directorships and for the Presidency that the then Board for the first time learned of Mr. Metcalfe's indebtedness to the Bank on a Bill of Exchange on England for ($40,000) Forty thousand dollars, cashed on the ——— but returned dishonored on the ———, and which, though in the Bank, stood on the books in the account of Foreign Exchange, as if that amount were at the credit of the Bank in England, available to be drawn against. Mr. Smith's object in unmasking the transaction may be imagined; mine, in alluding to it here, is to enable you to see that the books, which we are told, were always accessible to me, do not invariably exhibit the actual nature and position of affairs. In this case they would show $40,000 to the credit of Foreign Exchanges; whereas the bill was lying in the vault of the Bank dishonored, and had been there the greater portion of a year.

My task is almost finished. I have portrayed the evil; it is for you to apply the remedy. My purpose will be accomplished if I succeed in convincing you of the necessity of prompt and decided action on your part to reorganise the management of the Bank, overhaul its affairs, and invest the control in men wholly unconnected with the present Board, and in no manner subject to the demoralising influences which now prevail. Do not transfer your power incautiously. My six opponents profess a willingness to relinquish their positions; it will be for you to take care that under the guise of retiring they do not merely give place to their own nominees, who would but perpetuate their policy. The efforts in progress to obtain proxies renders this warning necessary. Keep your votes, at least for the present, and when you do give proxies, let it be to parties whom you know to be unconnected with the present Board, and untrammelled by obligations to the Bank. Concerted action will be desirable, perhaps requisite, to secure the desired end.

I shall be pardoned for adding that, in conjunction with a radical change in the management, you should in my opinion cause to be instituted a thorough investigation into the affairs of the Bank, by parties of experience and character in banking, and in no way related to the Board or its officers. Only by this proceeding will it be possible to ascertain the entire truth.

For some time yet my address will be at the Senate, Ottawa.

I remain,

Your obedient servant,

**DONALD McDONALD**